

VZCZCXRO2653  
PP RUEHBC RUEHDE RUEHDH RUEHIHL RUEHKUK  
DE RUEHGB #2204/01 2261350  
ZNY CCCCC ZZH  
P 141350Z AUG 09  
FM AMEMBASSY BAGHDAD  
TO RUEHC/SECSTATE WASHDC PRIORITY 4328  
INFO RUCNRAQ/IRAQ COLLECTIVE PRIORITY  
RUEHC/OPEC COLLECTIVE PRIORITY  
RUEKJCS/DIA WASHDC PRIORITY  
RUEAIIA/CIA WASHDC PRIORITY  
RHEBAAA/USDOE WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 002204

SIPDIS

E.O. 12958: DECL: 08/14/2019  
TAGS: [EPET](#) [ENRG](#) [ECON](#) [IZ](#)  
SUBJECT: IRAQ MINISTER OF OIL OPTIMISTIC ON FOREIGN  
PARTICIPATION AND OUTPUT TARGETS

REF: A. A) BAGHDAD 2097  
[B. B\) BAGHDAD 2115](#)  
[C. C\) BAGHDAD 2037](#)

Classified By: DCM PHaslach for reasons 1.5 b,d

[1](#)1. (C) Summary: In a wide-ranging discussion of petroleum issues in Iraq, Minister of Oil Husayn Al-Shahristani told DCM for Assistance Transition that he

- is optimistic about significantly improved oil production;
- expects the British Petroleum/CNPC contract to manage Rumaila field to be signed soon (perhaps by October); and
- predicts the GOI will meet its 2009 oil revenue targets thanks to increased oil exports and recovering oil prices.

Shahristani, however, remains opposed to affirming any pre-existing Kurdistan Regional Government (KRG) contracts for oil production. He says these contracts are the "main hurdle" for reaching a deal with the KRG on a Hydrocarbons Framework Law. End Summary.

[1](#)2. (SBU) DCM Haslach, accompanied by energy attache, econoff, and a representative of Multi-National Forces-Iraq (MNFI), called on Minister Shahristani on August 5. Shahristani was accompanied by Special Advisor to the Minister Adul-al-Saheb al-Qutub and Deputy Minister of Oil (Upstream) Abdul Kareem al-Luaibi.

#### Current Production

-----

[1](#)3. (SBU) Shahristani confirmed that Iraq's oil production in July increased to just over 2.5 million bbl/d, with exports at 2.0 million bbl/d. This production level ) along with prices approaching 65 USD for Basra Light crude ) exceeds the GOI's 2009 budget targets of 2.0 million bbl/d at 50 USD a barrel. However, this &surplus8 revenue has not made up for the shortfall incurred by lower production and lower average export prices in the first quarter of 2009 (reftels A,B). Shahristani stated that even in the worst case, Iraq will maintain or even expand current production for the remainder of 2009, and that annual revenues will meet targets by the end of the year.

#### Production Increases

-----

[1](#)4. (C) Shahristani said he expects Iraq will increase its oil production to almost 2.7 million bbl/d later this year by adding 150-160k bbl/d in production from the country's southern fields. He stated that he has requested USD 300 million under the 2009 supplemental budget request ) currently pending in the Council of Representatives (COR, the

Iraqi Parliament) ) to further ramp up production by "hundreds of thousands" of barrels per day. Unfortunately, he said, "the COR defines success as not spending money." He is cautiously optimistic that the COR will approve the supplemental budget in September, when it returns from its Ramadan recess.

¶5. (C) Shahrستاني said the mobilization time needed by BP/CNPC before starting work in the Rumaila oil field is very short. He expects to see "incremental" production increases from Rumaila within the first year and "significant" increases (up to 400k bbl/d in new production) each year afterwards until the field reaches the production plateau target of 1.9 Mbbbl/d in new production. Shahrستاني told DCM that talks with BP are going "according to plan" and BP had presented a work plan for developing the fields. Shahrستاني is "pleased with BP's commitment" to follow up on its bid. While some COR members are making inflammatory statements about the foreign investment, he said, the unanimous approval of BP's bid by the Council of Ministers "sent very reassuring signals" to the COR. Shahrستاني said the BP/CNPC deal can be "concluded and approved quite soon." (Comment: When we met with BP executives in late July, following their first round of talks with the MoO, they were likewise optimistic that a deal would be struck this fall, although likely not within the one month timeframe that Shahrستاني was seeking. End comment.)

#### Remaining First Round Fields

-----

¶6. (SBU) Shahrستاني said the GOI "has a procedure in place"

BAGHDAD 00002204 002 OF 003

to deal with the oil and gas fields not awarded in the first bid round (held in June), but he "prefers not to discuss it yet." He said the GOI might develop the two gas fields itself, and will seek deals on some giant oil fields, including Zubayr, Kirkuk, and West Qurnah. Such development would be considered after concluding the current talks with BP/CNPC on managing the Rumaila super-giant field. If all of these fields were developed, Shahrستاني said, Iraqi production would climb to 10 million bbl/d. (Comment: Putting aside for the moment the significant hurdles to this goal ) at 10M bbl/d, Iraq would become the largest single oil producer in the world, and world oil supplies would increase by nearly 10 percent. End comment.)

#### The Iraqi National Oil Company

-----

¶7. (C) Shahrستاني is pleased (but realistic) with progress on reorganizing Iraq's parastatal oil companies. He said the problems within the Southern Oil Company "have been dealt with" (a reference to the recent sacking of its Director General Fayadh Nima, a too-vocal critic of the Oil Minister).

Shahrستاني stated that passage of the INOC Reconstitution Law by the Council of Ministers was a positive step, but the law could not be implemented without passage of the remaining oil sector reform bills. He appeared unfazed by the proposal to reorganize the Ministry of Oil, which he said was the other side of the coin of the law establishing the Iraqi National Oil Company (INOC, ref tel C) and which entails "just transferring some departments" from the MoO to the new INOC. Shahrستاني was upbeat about prospects for the proposed Revenue Sharing Law, saying the KRG was willing to deal on the one remaining area of disagreement. If the revenue sharing bill were "de-linked" from the other hydrocarbons legislation, he said, "it could pass quickly." However, he said, the KRG refuses to consider any of the four hydrocarbon bills in isolation, and wants to pass them as a package. (Comment: KRG representatives have indicated to us that they would be willing to discuss individual bills, and the KRG itself has proposed passing a revenue sharing law prior to the hydrocarbons framework law. End Comment.)

18. (C) Shahrستاني was less sanguine about the prospects for the Hydrocarbons Framework Law (HFL). He was unsure if there had been any progress, saying he "didn't see any serious discussion" going on. He said the recent summit between Prime Minister Maliki and KRG President Barzani in Sulimaniyah last week did not discuss details of the HFL. The two sides agreed, however, to begin a dialogue on the HFL, and the KRG agreed to send a delegation to Baghdad for talks on August 14. "Frankly," he said, "the main hurdle" is the existing KRG oil production contracts. Becoming agitated, Shahrستاني said the KRG contracts were "simply not acceptable" and were "not competitively awarded and (were) not transparent." He complained that the GOI has not even seen the contracts to be able to review them. Asked if he would have a role in the upcoming talks, Shahrستاني replied "absolutely." (Comment: Given his opposition to the KRG contracts, his personal participation in the talks could reduce the chances of reaching a compromise. Article 40 of the draft law would allow the contracts to be reviewed and the draft law would allow the contracts to be reviewed and modifications proposed to them by the to-be-formed Federal Oil and Gas Council (FOGC). In our talks with KRG representatives, Embassadors have been told that the KRG would accept this process, as long as it did not result in complete abrogation of the contracts. This compromise solution seems tantalizingly near, but Shahrستاني's comments raise doubts about whether he would be willing to yield on this red-line issue for the KRG. End Comment.)

#### Naft Kaneh Pipeline

19. (C) Shahrستاني cited the importance of completing the pipeline from the Naft Kaneh oil field, on the Iranian border, to the Al Daura refinery in Baghdad. Al Daura needs the Naft Kaneh high quality crude, he said. Shahrستاني added that Iran is producing as much as it can from that field, "so why shouldn't we do the same?" (Comment: Naft Kaneh had been a low-priority field for the GOI. Now that a pipeline to bring this high-quality crude to Baghdad has been completed and is in the final stages of testing, more attention is being paid to this cross border field. The field yields only 5,000 bbl/d of production, but the high quality of the crude and its cross-border position could prompt the GOI to engage in further discussion with Iran on

BAGHDAD 00002204 003 OF 003

field development and/or unitization agreements. Post will continue to follow this issue closely, especially given recent reports that Iraq has signed an MOU for technical assistance with Iran in developing cross-border fields. End Comment.)

#### Other Operational Issues

10. (SBU) Responding to specific questions, Shahrستاني reiterated the importance of the Southern Export Redundancy Project (SERP) in increasing Iraq's oil exports. He said current facilities were "not good enough" to support aggressively expanding oil production and exports. Shahrستاني also confirmed plans to increase diesel production to avoid shortages during Ramadan, saying the GOI "should manage with no serious disruptions" in consumer fuel supplies. Finally, he encouraged the USG to contact the Director General of the Bayji refinery to see if he would welcome USG technical assistance for maintaining its frequently malfunctioning hydro-cracker. Shahrستاني also took on board the DCM's invitation to send representatives to the US-Iraq Investment conference in Washington this October to promote investment in Iraq's oil sector.

HILL